

MINUTES

MONTANA SENATE 57th LEGISLATURE - REGULAR SESSION COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN BOB DEPRATU**, on March 1, 2001 at 8:00 A.M., in Room 405 Capitol.

ROLL CALL

Members Present:

Sen. Bob DePratu, Chairman (R)
Sen. Alvin Ellis Jr., Vice Chairman (R)
Sen. John C. Bohlinger (R)
Sen. Mack Cole (R)
Sen. Pete Ekegren (R)
Sen. Jon Ellingson (D)
Sen. Bill Glaser (R)
Sen. Dan Harrington (D)
Sen. Emily Stonington (D)

Members Excused: None.

Members Absent: None.

Staff Present: Lee Heiman, Legislative Branch
Deb Thompson, Committee Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:

Hearing(s) & Date(s) Posted: House Bill 369, 2/19/2001;
House Bill 362, 2/19/2001
Executive Action: House Bill 369 Pass 9-0

HEARING ON HOUSE BILL 362

Sponsor: REPRESENTATIVE JOE MCKENNEY, HD 49, GREAT FALLS

Proponents: Joe Mazurek, Great Falls City Commission; Carol Lambert, WIFE; Bob Stephens, Montana Grain Growers Association; Nancy Schlepp, Montana Farm Bureau

Opponents: None

Opening Statement by Sponsor: REPRESENTATIVE MCKENNEY presented the bill. He said the proposal excluded the taxation of machinery and tools used in the production of ethanol during the construction of the facility up to ten years after completion of the project. The Great Falls project would provide 500 temporary jobs and 100 permanent jobs. The Conrad project would use up to 30 million bushels of barley and wheat. There will be one million acres of production which is an increase of 13% over 1998 grain production figures. He pointed out this was good for the economy as it was a new industry, would develop new markets and be a value added product.

Proponents' Testimony: Joe Mazurek, representing the Great Falls City Commission spoke about the benefits of employment, growth and a spin off of new businesses. He pointed out the state would give up nothing as the equipment and improvements have not yet been implemented. The tax on the land remains the same. The plant will pay for city services. The tax credit replaces what was an existing tax break, the Tax Increment Financing break that was in place but is no longer usable. An increment can't be created any more because of the reduction in the personal property taxes. The tax is similar to what is provided for other agricultural production facilities that use canola, for example. The increased markets for this grain have the potential to have a tremendous impact on Montana's grain producers. **{Tape : 1; Side : A; Approx. Time Counter : 0 - 5.3}**

Carol Lambert, representing Women Involved in Farm Economics, spoke in support of the bill. She said WIFE had been instrumental since the start of the ethanol project. It is great for the economy of Montana and a saving factor to keep our farmers in business. This is also a clean air fuel.

Bob Stephens, representing the Montana Grain Growers Association, said they felt this was a worthwhile project and they had been working and supporting this concept for years. This project will use 30 million bushels of grain from the triangle area. They are building mega-terminals, which means the small elevators may be put out of business. However, this will save wear and tear on the highways and avoid the extra expense in transportation. It will be a boon to farmers, who have been in a slump. The possibility exists to raise the price of grain. **{Tape : 1; Side : A; Approx. Time Counter : 5.3 - 7.3}**

Nancy Schlepp, representing Montana Farm Bureau, said they had an interest in the bill and the industry needed an even playing field. She urged the committee go ahead with the bill.

Opponents' Testimony: None

Questions from Committee Members and Responses: SENATOR ELLINGSON

noted that this was a \$262 million dollar project and asked how much grain would be used and whether Montana grain would be used specifically. **Mr. Mazurek** said this was correct and the project would use 30 million bushels of grain a year. The plant was purposely being built in the middle of the grain belt to use Montana grain. This will save in transportation costs. The plant can use any type of grain, possibly using 30% of the state's grain crop. The plant can do wet or dry processing and has at least two other by products, one is a food protein and the other is malt. He said this would have a tremendous economic impact on Montana agriculture, if for no other reason it eliminates shipping costs out to the coast. {Tape : 1; Side : A; Approx. Time Counter : 7.3 - 15}

SENATOR ELLINGSON asked about the construction progress. **Mr. Mazurek** replied as soon as their financing was completed they expected to start construction before summer. He pointed out the tax break was significant to get through the construction and the initial operating phases. SENATOR ELLINGSON asked how much in taxes would this industry provide. **Mr. Mazurek** replied it was a ten year holiday. The revenue would have been \$2.5 million dollars annually.

CHAIRMAN DEPRATU asked whether the quality of the grain made any difference. **Ms. Schlepp** replied that even low quality grain would be fine. Markets usually look for high protein and this market will look for low protein.

SENATOR STONINGTON asked why the plant failed in the past. **Ms. Schlepp** said there were a couple reasons it failed. It was the first time it had ever been tried. The plant was built for corn specifications and it did not run at all. It was reassembled using barley specifications. They had a second set back of an electrical fire that burned down the entire plant. When they rebuilt, it took all their resources. Once it was up and running, there was a huge campaign by the oil companies to halt their progress. This included signs put in most the major gasoline stations that said do not use gasohol or ethanol fuels, that they would ruin your engine. It was not true, but the employees were told to do it by the oil companies. The ethanol plant ran out of resources and backers. This was twenty years ago and they were a little before their time. Since then, they have been proven to be environmentally friendly and product research, done at Montana State University, has developed additional products. {Tape : 1; Side : A; Approx. Time Counter : 15 - 19.3}

SENATOR BOHLINGER asked what salary level the 100 employees could expect. **REP. MCKENNEY** replied in the \$25-30 thousand dollar ranges. The ten year tax holiday is just for the business equipment. The income taxes generated from the employees and the real property taxes will be a benefit to the state. **SENATOR BOHLINGER** pointed out this was an important factor for the economy, the employees will be paying income taxes and the company will be paying property taxes. He asked about the added value to the economy when the tax holiday was over. The construction contract was worth \$250 million dollars which would be a benefit to the local economy. *{Tape : 1; Side : A; Approx. Time Counter : 19.3 - 24.3}*

SENATOR BOHLINGER noted that ethanol products currently were priced at \$1.89 per gallon and the product was trucked in from Alberta. He asked what the product would be sold for that was generated in Montana. **REP. MCKENNEY** replied that it would be sold competitively and it was hoped it would be exported since it was a value added product made in Montana. It will be exported to the West Coast where they have the clean air challenges which then will bring wealth back into Montana. *{Tape : 1; Side : A; Approx. Time Counter : 24.3 - 26.6}*

SENATOR GLASER noted that the definition for the tax holiday would start ten years after completion of construction of the manufacturing facility. He asked what would prevent the facility construction from continuing, never reaching completion. **REP. MCKENNEY** replied that at some point in time, capital would be needed to pay for the project. The intent is to have the business equipment tax in effect as soon as the plant is started, even if they are not up and running and producing a product. The relief is to be during the construction phase and ten years thereafter. *{Tape : 1; Side : A; Approx. Time Counter : 26.6 - 30}*

Closing by Sponsor: **REP. MCKENNEY** closed. He described the bill as an economic development bill that would provide tax relief to construct a new industry. It was environmentally friendly and using grain was a perfect value added product. This industry will add value and assistance to agriculture. *{Tape : 1; Side : B; Approx. Time Counter : 0 - 12.3}*

HEARING ON HOUSE BILL 369

Sponsor: **REP. JESSIE LASLOVICH**, HD 57, Anaconda

Proponents: Chris Tweeten, Attorney General's Office; Erin McGowan, American Cancer Society

Opponents: None

Opening Statement by Sponsor: REP. JESSIE LASLOVICH presented the bill. He described the bill that would not allow manufacture or sale of less than 20 cigarettes to a pack or in rolling tobacco, not less than 0.6 ounces of tobacco. He explained that teenagers would be more inclined to buy single cigarettes for 15 cents each. ***{Tape : 1; Side : B; Approx. Time Counter : 12.3 - 15.6}***

Proponents' Testimony: Chris Tweeten, representing the Attorney General's Office, spoke in support of the bill. He described the Montana Tobacco Settlement and distributed information regarding the terms of the settlement. **EXHIBIT(tas47a01)** He noted it was illegal to sell single cigarettes as this would allow them to be affordable.

Erin McGowan, representing the American Cancer Society, pointed out facts regarding the addictive nature of tobacco. She urged the committee to vote for this bill.

Opponents' Testimony: None

Questions from Committee Members and Responses: SENATOR EKEGREN asked if single cigarettes were against the law. Mr. Tweeten said manufacturers had agreed to the same definition of a 20 count cigarette pack, the same as the settlement package definition. **EXHIBIT(tas47a02)** ***{Tape : 1; Side : B; Approx. Time Counter : 15.6 - 20; Comments : Tape recorder quit recording. Switched to tape 2.}***

SENATOR BOHLINGER asked if we could raise the cigarette tax to .88 cents like Washington State. He said it seemed like there was room to increase the tax to a more aggressive level. Chris Tweeten said the Attorney General supported a tax increase on cigarettes but that was not contained in this bill. ***{Tape : 2; Side : A; Approx. Time Counter : 0 - 2.8}***

Closing by Sponsor: REP. LASLOVICH closed.

EXECUTIVE ACTION ON HOUSE BILL 369

SENATOR STONINGTON MOVED DO PASS. The question was called. The motion PASSED unanimously. SENATOR BARRY will carry the bill.

ADJOURNMENT

Adjournment: 8:58 A.M.

SEN. BOB DEPRATU, Chairman

DEB THOMPSON, Secretary

BD/DT

EXHIBIT (tas47aad)